

Licensing Forum

MedImmune, Inc. v. Genentech, Inc.: What's All the Fuss?



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WHILE MOST OF US WERE RINGING in the New Year, patent attorneys, Supreme Court observers, and bloggers across the country were sounding the alarm: The balance of power in patent license agreements has shifted in favor of licensees. Bloomberg News announced “Thousands of patents may now be subject to challenge, and would-be licensees will have new leverage in negotiations with patent holders.”¹ “This decision will alter the structure of future deals.... It changes the rules of engagement,” offered the president of the Licensing Executives Society, USA & Canada.² “It’s going to lead to a flood of patent litigation”³ was one patent litigator’s prediction for 2007 and beyond. The U.S. Supreme Court’s long-awaited decision in *MedImmune, Inc. v. Genentech, Inc.*⁴ is certain to spark controversy within the patent bar for some time to come. What’s less clear is whether any of the predictions about the ruling’s effect

on patent licensing will come true.

In short, the ruling held that subject-matter jurisdiction existed over MedImmune’s request for a declaratory judgment that a patent licensed from Genentech was invalid, unenforceable or not infringed, even though MedImmune continued to pay royalties to keep the patent license in effect. Until now, patent licensees could not establish a case or controversy as required under Article III to challenge the validity, enforceability or scope of a licensed patent without first repudiating the license.⁵ Genentech argued that there was no case or controversy and, therefore, no subject-matter jurisdiction, so long as MedImmune continued to pay royalties under the patent license and enjoy protection from a patent infringement action. Yet, the Supreme Court found that MedImmune’s choice to continue its payments was coerced because, had it stopped paying royalties, it would have been sued for patent infringement and, if it lost, MedImmune could have been ordered to pay treble damages and attorneys’ fees and could have been enjoined from selling products covered by the patent.

The circumstances surrounding MedImmune’s dilemma of whether or not to continue paying royalties while it challenged Genentech’s patent created the perfect storm for a declaratory judgment action. After the patent was granted, Genentech notified MedImmune that the patent was included under its existing patent license. The license covered MedImmune’s Synagis® product, which accounts for over eighty percent of MedImmune’s total revenue.

MedImmune did not believe the patent covered Synagis, but it didn’t want to bet the company it was right. While paying royalties to Genentech on sales of Synagis, MedImmune sought declaratory relief. Despite MedImmune’s choice to avoid an infringement action by Genentech, the Court held that a substantial controversy existed as to MedImmune’s obligation to pay royalties under the patent license. Article III does not require a plaintiff to “risk treble damages and the loss of 80 percent of its business, before seeking a declaration of its actively contested legal rights....”⁶

It didn’t take long for practitioners to proclaim that the Court’s ruling emboldens licensees to file patent challenges because the downside risk of such suits – termination of the license and liability for willful infringement—has been eliminated. And, some say, patent owners will be less inclined to settle infringement claims and enter into patent licenses now that licensees can challenge the validity of licensed patents. Licensors have been urged to include in their agreements provisions barring a licensee from challenging the licensed patent’s validity or clauses that, upon the licensee filing an action to challenge the licensed patent, automatically trigger onerous payment obligations or termination of the license. Don’t suffer the same fate as Genentech—lawyers across the country have warned, imploring licensors to scrutinize their existing patent licenses.

While MedImmune is a wake-up call for licensors not to be complacent with compliant licensees, the impact of

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the Court's decision on patent licensing must be put into perspective. The ruling does not suddenly grant patent licensees broad rights to challenge the validity of licensed patents under any circumstances. *MedImmune* was coerced into maintaining a license that it didn't believe it needed and continued to pay royalties under protest and its reservation of rights. Although the risk of treble damages and an injunction has been reduced substantially, similarly situated licensees still need to weigh the likelihood of prevailing on a claim of invalidity against the cost of litigation. Licensors may seek to pack license agreements with protective provisions designed to discourage such claims, but it remains to be seen whether licensees will accept these terms.

Fundamentally, the *MedImmune* decision is a reminder that good licensing practice anticipates changes in the law. A covenant not to challenge the validity of the patent underlying a license agreement, a termination right triggered upon a licensee's action to declare the licensed patent invalid, a license grant that includes trade secrets, trademarks or other intellectual property rights, in addition to patents, providing alternative royalty obligations and a severability clause to help ensure that a future Supreme Court decision will not render the entire license

agreement unenforceable are worthwhile considerations, but they are not new to patent licensing. This leads me to wonder whether all of the attention that *MedImmune* has generated within the licensing community is warranted.

The *MedImmune* decision and its impact on patent licensing raises interesting questions. Has the balance of power between licensors and licensees really shifted? What provisions should now be included in every patent license agreement and will the parties to these agreements accept them? Is there anything that licensors and licensees should be doing with respect to their existing license agreements? Discussions regarding these issues and how they evolve will be focused on in the future meetings of the Licensing Committee. To participate, please contact Kevin DeBré at kdebre@biztechlaw.com. ☺

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Endnotes

1. "High court opens door to more patent challenges," Los Angeles Times, January 10, 2007, at C2, col. 2.
2. Quotation from Licensing Executives Society (U.S.A. & Canada), Inc. website, located at www.usa.-canada.les.org/press/archives/1.10.07.asp, viewed on January 24, 2007.

3. Los Angeles Times, January 10, 2007, at C2, col. 2.
4. 127 S.Ct. 764, 166 L. Ed. 2d 604 (2007).
5. *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376 (Fed. Cir. 2004).
6. *MedImmune*, Slip Opinion at 15.

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for sealing and sealed entire law and motion papers).

8. 112 Cal.App.4th at 105 (Emphasis added).
9. *Id.*
10. *Id.* See also *Foltz v. State Farm Mut. Auto. Ins. Co.*, 331 F.3d 1122, 1135 (9th Cir. 2003) (vacating sealing order because it was based on a stipulated protective order, which, standing alone, did not create a "compelling" reason for sealing court records).
11. *NBC Subsidiary*, 20 Cal. 4th at 1218-19; see also Cal. R. Ct. 243.1(d).
12. See *NBC Subsidiary*, 20 Cal. 4th at 1225; see also Cal. R. Ct. 243.1(e)(1).
13. *Id.* (Emphasis added).
14. 96 Cal.App.4th 292 (2002).
15. *Id.* at 303-308.
16. *Id.* at 305.
17. *Id.* at 309.
18. *Id.* at 298.
19. *People v. Super Court (Romero)*, 13 Cal. 4th 497, 509 (1996).
20. Civil Code § 3426.1(d).

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